



**City of Detroit**

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**OFFICE OF THE AUDITOR GENERAL**

**Audit of the  
Greater Detroit  
Resource Recovery Authority**

**January 2004**



**City of Detroit**  
**OFFICE OF THE AUDITOR GENERAL**  
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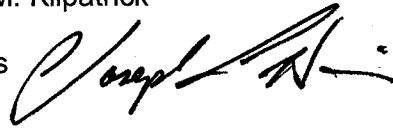
**Joseph L. Harris, CPA, CIA**  
Auditor General

**Sharon L. Gipson, CPA**  
Deputy Auditor General

**MEMORANDUM**

**DATE:** April 11, 2005

**TO:** Honorable City Council  
Mayor Kwame M. Kilpatrick

**FROM:** Joseph L. Harris  
Auditor General 

**RE:** Audit of the Greater Detroit Resource Recovery Authority

**C:** Cathy Square, Director

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Attached for your review is our report on the audit of the Greater Detroit Resource Recovery Authority.

This report contains our audit purpose, scope, objectives, and methodology; background; findings and recommendations; status of prior audit recommendations; noncompliance issues; and the agency's response.

We appreciate the assistance that we received from the employees of the Greater Detroit Resource Recovery Authority.

**Audit of the  
Greater Detroit Resource Recovery Authority**

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## **AUDIT PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY**

### **Audit Purpose**

This audit of the Greater Detroit Resource Recovery Authority (Authority) was performed under the Office of the Auditor General's (OAG) Charter mandate to audit financial transactions of all City agencies. The OAG performed an audit of the adequacy of internal control procedures to properly record payroll, cash receipts, accounts receivable, voucher disbursements, fixed assets, and imprest cash transactions as well as compliance with year-end closing procedures.

### **Audit Scope**

We performed an assessment of the Authority's control procedures for the audit period July 1, 2000 through June 30, 2003, for transactions of payroll, cash receipts, disbursements, fixed assets, revenues, and imprest cash, and determined that there is a noncompliance issue. We focused our audit on the weaknesses discovered during the assessment and the status of the prior audit findings.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except that the OAG has not received an external peer review within the past three years.

### **Audit Objectives**

Our audit of the Authority had the following objectives:

1. To assess the Authority's internal controls relating to:
  - a. Financial operations, and
  - b. Compliance with policies, plans, procedures, laws and regulations.
2. To determine whether the Authority implemented the prior audit recommendations or otherwise resolved the findings.

### **Audit Methodology**

To accomplish the audit objectives, our audit work, conducted through January 2004, included the following:

- We reviewed directives, policies, and procedures, and interviewed Authority management and personnel to gain an understanding of the Authority's internal controls.
- We evaluated internal controls for payroll, cash receipts, accounts receivable, voucher disbursements, fixed assets, and imprest cash.
- We examined a judgmental sample of transactions that we considered satisfactory to achieve our objectives.

## **BACKGROUND**

The Greater Detroit Resource Recovery Authority (Authority), established in 1984, is governed by a seven member Board of Directors. The members of the Board from Detroit are the incumbents of the following offices: Chief Executive Assistant to the Mayor, the Finance Director, the Budget Director, the Director of the Buildings and Safety Engineering Department, the Director of City Engineering, and the Director of the Department of Public Works. The Public Works Director of the City of Highland Park is also a member of the Board of Directors.

The Authority was established for the acquisition, construction, and operation of a waste-to-energy facility. The initial financing was provided by the issuance of \$500 million in adjustable/fixed rate revenue bonds. The Authority elected to convert the interest rates on \$438 million of its \$500 million in adjustable/fixed rate revenue bonds to fixed rates and reoffered such bonds in May 1986. The secondary offering reduced the initial financing by the redemption of \$62 million of the adjustable/fixed rate revenue bonds. Construction of the waste-to-energy facility was started in May 1986. In October 1991, the Economic Development Corporation of the City of Detroit authorized the issuance of \$171.5 million of revenue bonds to fund the acquisition and installation of additional pollution control equipment for the facility.

On October 23, 1991, the Authority sold the facility to private investors in a sale/lease transaction for \$634.9 million. The purchasers agreed to lease the facility to an outside contractor for an initial lease term of 18 years. The outside contractor will continue to operate the facility under a supplemental operating agreement with the Authority, which results in the Authority assuming most of the lease obligations. The City of Detroit, under the supplemental service contract, has agreed to pay tipping fees to the Authority sufficient to meet these obligations.

## **FINDINGS AND RECOMMENDATIONS**

We noted no findings during our audit.

## **STATUS OF PRIOR RECOMMENDATIONS**

The result of our review of the prior audit findings and related recommendations follows.

### **1. Voucher Disbursements – Contract Monitoring:**

To facilitate monitoring of professional services contracts, we recommend the Authority include specific rates for both personnel provided and services rendered in all such contracts.

#### **Results:**

The Authority has implemented the recommendation.

The Authority updated all of the professional services contracts to include specific rates for both personnel provided and services rendered in all such contracts.

### **2. Imprest Cash – Internal Control Weaknesses:**

We recommend the Authority institute procedures to periodically reconcile the imprest cash fund to its authorized amount of \$3,000.

#### **Results:**

The Authority has implemented the recommendation and has reconciled its imprest cash fund, to its authorized amount of \$3,000, on a monthly basis.

## **NONCOMPLIANCE ISSUE**

We noted the following instance of noncompliance with established Greater Detroit Resource Recovery Authority procedure:

1. The Authority has not performed a physical inventory of its taggable equipment.

The Authority should implement procedures to correct the above conditions to ensure compliance with established procedure.

**GREATER DETROIT**  
**RESOURCE RECOVERY AUTHORITY**

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**ATTACHMENT A**

April 7, 2005

Joseph L. Harris, Auditor General  
Office of the Auditor General  
2 Woodward Avenue  
Coleman A. Young Municipal Center, Room 208  
Detroit, Michigan 48226

Dear Mr. Harris:

The following presents the Greater Detroit Resource Recovery Authority's (Authority) response for the indicated noncompliance issue in the January 2004 audit of the Authority, as prepared by the Office of the Auditor General.

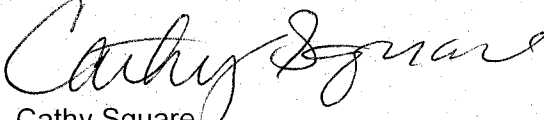
Noncompliance Issue

The Authority has not performed a physical inventory of its taggable equipment. The Authority should implement procedures to correct the above conditions to ensure compliance with established procedure.

Agency's Response:

As of April 6, 2005, the Authority conducted a complete physical inventory of all equipment and has reconciled it to existing inventory record.

Sincerely,

  
Cathy Square  
Director